



CALIFORNIA EMPLOYER

Fourth Quarter 1997

New tax processing system will lead to tax filing changes in 1998

During the next year, there will be some changes to the quarterly reports and annual returns you receive from the Employment Development Department (EDD). We are modernizing our tax processing system to enable us to open mail, process checks, and post data more accurately and efficiently. This will greatly reduce the time and resources needed to process tax documents. The new system will be phased-in by June 1999. Some of the changes will include:

- Beginning in the fourth quarter of 1997, bar codes and target marks will be added to reporting forms to allow our new system to identify and process each form more accurately.
- Additional form changes will allow for faster processing while reducing the need for human processing. These changes will begin in the first quarter of 1998, with the *Quarterly Wage and Withholding Report* (DE 6).
- Telefiling will be available beginning in March 1998, targeted for employers with five or fewer employees. This

system will use touch-tone and voice recognition technology to enable you to file your quarterly reports by telephone. Our surveys show that some employers would prefer telefiling rather than filing by mail.

- An electronic filing option will be available in March 1998 that will allow you to send reporting data to us using a computer and modem.

By expanding filing options to include telefiling and electronic filing, the amount of paperwork for both you and EDD will be greatly reduced. The reports received will be posted directly to our database, eliminating data entry errors and providing faster access to your account information should questions arise.

The EDD is looking forward to the full implementation of the new processing system over the next two years. We recognize that the form revisions may require programming changes, and ask that you bear with us in our quest to

Special envelopes will be provided to you

Beginning in 1998, specially designed envelopes will be sent to you for mailing your *Payroll Tax Deposit Coupons* (DE 88) and payments to EDD. Depending on the number of coupons in the booklet sent to you, envelopes will be included with your booklet or mailed separately. You should receive your 1998 coupon booklet and envelopes between December 1997 and February 1998. Please use these special envelopes to permit our new system to process your coupons and payments more efficiently.

modernize our tax return processing system. These changes will significantly reduce the cost of processing your employment tax returns. Expect to see and hear more about this exciting new system in the months to come. If you have any questions about this system, please call (916) 654-9887.

New legislation changes taxability of SIMPLE IRAs

Due to recent legislation (SB 455) signed by Governor Pete Wilson, California now conforms to federal payroll laws on the taxability of federal Savings Incentive Match Plans for Employees (SIMPLE) Individual Retirement Account (IRA) plans *retroactive to January 1, 1997*.

For California payroll tax purposes, employee salary reductions to a SIMPLE IRA are subject to Unemployment Insurance (UI), Employment Training Tax (ETT), and State Disability Insurance (SDI), but exempt from Personal Income Tax (PIT) withholdings. Employer contributions to a SIMPLE IRA are exempt from UI, ETT, SDI, and PIT withholding. Both employer contributions and employee

salary reductions are exempt from PIT and should *not* be included in PIT wages (box H) on your *Quarterly Wage and Withholding Report* (DE 6).

If you did not report employee salary reductions subject to UI, ETT, and SDI, or reported amounts that are now exempt, complete a *Tax and Wage Adjustments Form* (DE 678) for each quarter that needs to be corrected. If you are due a refund, include the following note on the DE 678, Section 1, Reason For Adjustment: "Overreporting due to contributions to SIMPLE IRAs." If you have any questions, please contact your local Employment Tax Customer Service Office.

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Taxable values of meals and lodging proposed for 1998

If you provide meals and/or lodging to your employees, they should be treated as wages for Unemployment Insurance,



Employment Training Tax and State Disability Insurance. Meals are subject to California Personal Income Tax (PIT) withholding unless you furnish the meals to your employees for your convenience on your business premises.

Lodging is subject to PIT withholding unless the employee is required to accept lodging on your business premises as a condition of employment.



Each year, the values of meals and lodging are adjusted based on the cost-of-living indexes. The EDD has proposed the following changes for the values of meals and lodging for 1998:

EMPLOYEES*

Meals	Value
- Breakfast.....	\$ 1.60
- Lunch.....	2.25
- Dinner.....	3.50
- 3 meals per day.....	\$ 7.35

- A meal not identified as either breakfast, lunch, or dinner.....\$ 2.55

Lodging Value

- Value is set at 66-2/3 percent of the ordinary rental value to the public, but not in excess of \$681.00 per month or less than \$22.10 per week.

MARITIME EMPLOYEES

Licensed Personnel	Value
- Meals.....	\$ 7.35
- Quarters.....	4.60
- Total per day.....	\$ 11.95

Unlicensed Personnel	Value
- Meals.....	\$ 7.35
- Quarters.....	3.15
- Total per day.....	\$ 10.50

Fishermen

- Lodging value is \$22.10 per week or \$3.15 per day for periods of less than a week.

* Maritime employees' values of meals and lodging are different than all other employees and are shown in the above table on the right.

Note: The above values do not apply where higher values of meals and lodging are stipulated in a union agreement or contract of hire, or are required for compliance with minimum wage laws. If you have any questions regarding the taxability of meals and lodging, please contact your nearest Employment Tax Customer Service Office.

Important EFT news

Bank account changes for ACH filers

If you are an Electronic Funds Transfer (EFT) Automated Clearing House (ACH) credit filer, you will need to use a new bank account number and routing transit number beginning January 1, 1998.

This is because the state's bank is changing from Bank of America to Union Bank of California. EFT payments with a settlement date of January 1, 1998, or after *must* contain EDD's new

bank account number and routing transit number in the entry detail record.

If you are an ACH credit filer, you already should have received a letter from EDD providing this new bank information. If you have not received this letter, or if you need more information, please contact: EDD, EFT Unit, MIC 15; P.O. Box 826880; Sacramento, CA 94280-0001; telephone (916) 654-9130.

New deputy director heads up Tax Branch

Robert Sertich became deputy director of EDD's Tax Branch on July 1, 1997. He succeeds Karl Grossenbacher, who is now with the Franchise Tax Board's legal department.

Mr. Sertich states that he "strongly believes in the concept of continuous improvement in operations and services." He is committed to customer service, and adds that he "hopes to provide leadership in improving customer service and taking full advantage of new technology to further improve Tax Branch's services."

Mr. Sertich's previous experience includes deputy director of administration in both the Departments of Social Services (DSS) and Health Services. He also served as deputy director of DSS's Disability Evaluations Division (DED), which adjudicates claims for long-term disability under the guidance of the Social Security Administration.

Under his tenure, the DED received national recognition for significant improvements in productivity and quality of case adjudication.

Changes in new employee reporting to take effect July 1

As part of the recent federal welfare reforms, a new law will take effect in California on July 1, 1998, requiring all employers to report all new employees to EDD within 20 calendar days of an employee's actual start to work date.

This information will be cross-matched against child support records to locate parents who are delinquent in their child support payments.

You will receive detailed instructions in the mail prior to July 1, 1998, along with a copy of the new reporting form.

For additional information, please call our hotline at (916) 657-0529, or visit EDD's website at <http://www.edd.cahw.net.gov>.

More details on the new reporting requirements will be provided in future issues of this newsletter.

Eligible employers have option of reducing their UI tax rate for 1998

Eligible employers will have the option of paying an additional Unemployment Insurance (UI) contribution in order to obtain a lower UI tax rate for 1998. This option is only available when UI contribution rate schedules AA through D are in effect. Schedule D will be in effect for 1998. A voluntary UI payment is not a prepayment, but an additional payment, and cannot be deducted on a future tax return.

If you are an eligible employer (see box at right) you will receive a *Voluntary UI Contribution Notice* (DE 2088A). This notice shows up to three different amounts that you may pay to lower your 1998 UI tax rate. A voluntary UI payment can reduce your UI rate from a minimum of 0.1 percent to a maximum of 0.6 percent. An *Explanation Sheet and Worksheet for the Voluntary UI Contributions Notice* (DE 2088VU) will be included with your DE 2088A.

Use the worksheet to calculate your projected savings to determine whether it is beneficial to buy down your UI contribution rate. Please note, however:

- Obtaining a lower rate may not reduce your annual UI costs because the voluntary UI payment may be greater than the savings you will realize from the lower UI rate.
- Once you make a voluntary UI payment, the reduced rate is in effect for all of 1998.
- Once you make a voluntary UI payment, it cannot be refunded.
- If you make a voluntary UI payment and you are not eligible to participate in the voluntary UI program, or if the payment is insufficient to reduce your UI tax rate to the next lowest rate, the payment may be applied to an existing liability with EDD, the State Board of Equalization, or the Franchise Tax Board.

YOU ARE AN ELIGIBLE EMPLOYER UNLESS:

- You are an unrated employer with the required 3.4 percent UI tax rate; or
- You have a negative UI reserve account balance; or
- You already have the lowest possible UI rate; or
- You have an unpetitioned outstanding liability as of September 30, 1997, (delinquent in paying taxes).

The deadline to submit a voluntary UI payment is March 31, 1998.

If you have any questions regarding voluntary UI payments, please contact your local Employment Tax Customer Service Office.

DE 2088s will be mailed out in December

You will receive your *Notice of Contribution Rates and Statement of Unemployment Insurance (UI) Reserve Account* (DE 2088) by December 31, 1997.



The notice will show your reserve account activity for July 1, 1996, through June 30, 1997, and also will indicate your 1998 UI tax rate. The UI taxable wage limit for 1998 will remain at \$7,000 per employee, per year.

The State Disability Insurance (SDI) tax rate for 1998 will be 0.5 percent (.005) and the taxable SDI wage limit will remain at \$31,767 per employee, per year.

The notice also will state whether you are subject to Employment Training Tax (ETT). The 1998 ETT rate will remain at 0.1 percent (.001).


For more information on your rates, please contact EDD's automatic call processing system at (916) 322-0507. This service is accessible 24-hours a day, seven days a week. To expedite your call, please have your DE 2088 or your account number available.

Annual interest rate remains at 9 percent

The annual interest rate for the period January 1 through June 30, 1998, for delinquent taxes and contributions will be 9 percent (.09), compounded daily.

The daily interest factor will be .000247. If you have questions about this interest rate, please contact your nearest Employment Tax Customer Service Office.

Employers' Year-end Checklist:

FORM NUMBER	FORM TITLE	DUE OR RECEIVED BY*	MAILED OR RECEIVED 
DE 6	<i>Quarterly Contribution Return - 1997 Fourth Quarter</i>	Delinquent if not filed by January 31, 1998.	—
DE 7	<i>Annual Reconciliation Return</i>	Delinquent if not filed by January 31, 1998.	—
W-2 1099-R	<i>Wage and Tax Statement Distributions from Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance, Contracts, etc.</i>	To employee(s) by January 31, 1998. (Note: Please do not send the state copy of the W-2 to EDD or FTB.)	—
DE 44	<i>1998 California Employer's Guide</i>	Mailed to employers in December 1997.	—
IRS Form 940 or 940EZ	<i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i>	Line 5 of IRS Form 940 should balance to total of Line D2 of <i>Annual Reconciliation Return</i> (DE 7).	—

*If any date shown falls on a Saturday, Sunday or legal holiday, use the next regular workday.

EDD now offering employment tax seminars

The EDD offers no-cost informational seminars to help you understand and comply with California employment tax laws.

Seminars may include one or more of the following topics:

- State payroll reporting requirements.
- Preparing payroll tax returns.
- Avoiding common pitfalls, costly mistakes, and unnecessary tax liabilities.
- Understanding the difference between an employee and an independent contractor.

- Controlling your unemployment insurance costs.
- New laws and emerging issues.
- Services and resources available at no additional cost.

Seminars can be customized to your specific needs. For more information, please contact your nearest Employment Tax Customer Service Office, or visit EDD's website at <http://www.edd.cahw.net.gov>. Check the *California Employer's Guide* or the State Government section of your telephone directory under "Employment Development Department" to find the office nearest you.

More offices convert to filing UI claims by phone

The EDD continues to move from filing unemployment insurance (UI) claims in person to Telephone Claim Filing (TCF). As of September 1997, customers served by 115 of EDD's 144 field offices will be able to file their UI claims by telephone.

When our UI customers call their local EDD field office (listed in the State Government section of the telephone directory) they are directly connected to the appropriate TCF Call Center. The EDD also has phased in statewide Teletypewriter (TTY) service for UI customers who are hearing or speech impaired. The goal of EDD's TCF Call Centers is to provide the most prompt service possible for our customers.

Since Mondays are generally the busiest days of the week, we suggest that customers call Tuesday, Wednesday, or Thursday between 8 a.m. and 5 p.m. for faster service. UI customers calling to file new UI claims or to reopen UI claims must call by Friday in order to receive credit for the week.

Recorded UI program information is available 24-hours a day. UI recipients also can access recorded information about their UI claim balance and most recent UI benefit check Monday through Saturday from 6 a.m. to midnight, and Sunday from 6 a.m. to 9 p.m. Claim balance information is updated daily.

UI Seminar for School Employers is scheduled for March

The annual Unemployment Insurance (UI) Seminar for School Employers is scheduled for March 19-20, 1998, at the Hyatt Regency Alicante in Anaheim.

This year's agenda includes presentations on managing UI claims, employee separations, and California employment taxes. The seminar will also include a mock hearing with an Administrative Law Judge on separations and reasonable assurance. This seminar is sponsored by the School Employer Advisory Committee in cooperation with EDD.

If you are a school employer, you should receive your registration material in December. If you are interested in attending, but have not received your registration materials by January 9, please contact EDD's School Employees Fund at (916) 324-1687, or write to:

EDD
School Employees Fund, MIC 68
P.O. Box 2482
Sacramento, CA 95812-2482

Employment Tax Information

General Information or Requests for Tax Forms (25 copies or less)	Contact your nearest Employment Tax Customer Service Office	Offers in Compromise	(916) 464-0646 Fax: (916) 464-2077
Forms Requests (more than 25 copies)	(916) 322-2835 Fax: (916) 327-9171	Registration for an Employer State ID	(916) 654-7041 Fax: (916) 654-9211
Electronic Funds Transfer	(916) 654-9130 Fax: (916) 654-7441	Tax Rates and Benefit Charge Information	(916) 322-0507
Magnetic Media Reporting	(916) 654-6845 Fax: (916) 654-7441	Underground Economy Operations Center	(916) 464-1075 Extension 299 Fax: (916) 464-1020
Alternate Forms Coordinator	(916) 654-9814 Fax: (916) 657-4949	Office of the Taxpayer Rights Advocate	(916) 654-8957 Fax: (916) 654-6969
New Employee Registry	(916) 657-0529 Fax: (916) 653-5214	EDD on the Internet:	http://www.edd.cahwnet.gov

California Employer

This newsletter is published quarterly by California's Employment Development Department (EDD) of the State Health and Welfare Agency, and is distributed with tax forms to all employers who are subject to the provisions of the California Unemployment Insurance Code.

The EDD is an equal opportunity employer/program and is subject to Section 504 of the Rehabilitation Act and the Americans with Disabilities Act. To obtain information about accommodations for disabilities, contact your local EDD office, listed in your telephone directory under "State of California, Employment Development Department." TDD users can reach EDD through the California Relay Service at 1-800-735-2929.

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